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FINANCIAL DIGEST

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POCKETS OF STRENGTH...

Although the U.S. economy continues to lurch toward recession, there are some pockets of strength remaining. One of them is exports. The reduction in the U.S. trade deficit to $1.4 billion in November from $2 billion in October is only the tip of the iceberg. In actual fact, the U.S. foreign trade position has been imparting a considerable degree of strength to the economy for longer than most people realize.

In searching for the true status of U.S. exports, a logical starting point might be the reasons for the reduction in the trade deficit in November to one of the smallest monthly levels in a year. For one thing, there was a significant increase in exports of manufactured goods, machinery, transport equipment, foods, and crude materials. This is encouraging because most of the Commerce Department's major industries participated in the rise in sales abroad. For the first 11 months of 1979, total exports rose nearly 27 per cent from the same period of 1978. In 1978, exports were up 18 per cent over 1977.

Looking at the position of the dollar relative to other currencies, it is easy to account for the strength in U.S. exports. In the past ten years the dollar has fallen against many key Western European currencies—not to mention the Japanese yen. In 1970, for example, the West German D-mark was worth 25 cents; today it is approximately 58 cents. Also 25 cents ten years ago, the Swiss franc is now 63 cents. The French franc has climbed from 18 cents to nearly 25 cents during this ten-year period, while today it takes less than 240 Japanese yen to obtain one dollar, compared with 360 ten years ago. Obviously, in these countries—and in others in which the U.S. competes with these countries for exports—U.S. businessmen have gained a competitive edge in terms of pricing, an edge that has shown up in strong exports.

However, the strength in exports has nearly been masked by an impressive rise in imports. In the first 11 months of 1979 imports rose 18 per cent from the same period of 1978, after rising 16 per cent in 1978. Imports declined by 2.3 per cent in November, led by a 19 per cent decline in imports of oil and related products. It is this swing in the imports of oil that is the key to our foreign trade picture. In the first 11 months of 1979, the dollar value of oil imported into the United States rose 35 per cent compared with the year before. However, since the average price of oil rose by about this much, it is clear that there was no change in the actual volume of oil imported into this country.

The point to note regarding U.S. exports is this: One way or another, the trade deficits induced by oil have clouded the true strength of the U.S. export picture. Looking at the real volume of goods coming into and leaving this country (including oil) produces a trade surplus that has been in existence since early 1978. Removing oil entirely from our trade picture also produces a trade surplus —even in current dollars.

On the home front, consumer spending on softgoods should also be considered a pocket of strength. Although sales of nondurable goods stores rose only half as fast in December compared with November as did sales of durable goods stores, over the entire year 1979, the picture was quite different. In this 12-month span, durable goods stores increased their dollar volume by only two per cent, while nondurable goods stores' sales rose 12 per cent. Within the softgoods sector, sales of most types of clothing remained fairly strong throughout 1979, led by "designer" items, such as jeans. Other areas of strength were food and drug stores and restaurants. Dollar volume moved through mass merchandisers declined a bit, as did sales of gasoline stations.

(continued)

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures – Millions of Dollars)

	Week Ending 1/16/80	Change Since Week Ago	Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	126,929	— 76	+11,906
Member Bank Borrowings	1,223	+ 491	+ 327
Float	6,192	—1,461	— 3,162
Total Reserve Bank Credit	139,663	—1,355	+10,004
Treasury Deposits with Federal Reserve Banks	3,281	+ 469	— 21
Currency Outside Banks	109,869	—3,616	+ 9,261
Member Bank Reserves:			
Required	45,988	+1,420	+ 1,532
Excess (Deficiency)	585	+ 346	+ 181
Total Reserves Held	46,573	+1,766	+ 1,713
Net Borrowed Reserves	564	+ 132	+ 170
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	79,426	—1,289	—17,306
		r-Revised	
	1/9/80		
Money Supply ($ Bil., SA) M1	382.3	— 0.7	+5.8%
Money Supply ($ Bil., SA) M2	954.7	+ 1.1	+8.4%

NEW YORK MONEY MARKET

Offering Rates 1/18/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.00%	11.84%	10.88%
*Federal Agencies	12.70	12.70	11.75
*Project Notes—Tax Free (46% Taxable Equivalent)	10.00	10.37	10.27
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	13.40	13.43	

‡Finance Company Paper—Prime		‡*Bankers' Acceptances	
5- 14 days	12.88%	Feb.	13.00%
15- 29 days	13.00	Mar.	13.00
30- 59 days	13.00	Apr.	13.00
60- 89 days	13.00	May	12.80
90-179 days	12.00	June	12.70
180-239 days	11.75	July	12.50
240-270 days	10.00		
‡Industrial Paper—Prime			
30- 89 days	13.00%	¡Federal Funds Effective Rate	13.80%
90-120 days	12.88		

‡Discount Basis. *Subject to Availability. ¡Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'79n	$ 2,456	$ 2,397	$ 2,235.2
Gross National Product (1972 Dollars)*	4th Q'79n	$ 1,438	$ 1,433	$ 1,426.6
Percent Change, Annual Rate	4th Q'79n	1.4%	3.1%	5.6%
Change in Consumer Prices (all urban consumers)*	Nov. '79	12.0%	12.0%	7.2%
Change in Producer Prices*	Dec. '79	9.6%	15.6%	12.0%
Civilian Employment (Thousands of Persons)†	Dec. '79	97,912	97,608	95,831
Unemployment as % of Civilian Labor Force†	Dec. '79	5.9%	5.8%	5.9%
Personal Income*	Dec. '79n	$ 2,023	$ 2,000	$ 1,827
Leading Indicators Composite Index (1967=100)†	Nov. '79	136.6	138.4	142.8
Industrial Production Index (1967=100)†	Dec. '79n	152.2	151.8	151.8
Net Change in Consumer Instalment Credit†	Nov. '79	$ 2.41	$ 2.19	$ 3.83
U.S. Merchandise Trade Balance†	Nov. '79	—$ 1.42	--$ 2.02	—$ 1.37
Plant and Equipment Expenditures*	1st Q'80	$189.32(a)	$184.32(a)	$165.94
Private Housing Starts (Thousands of Units)*	Dec. '79n	$ 1,527	$ 1,522	$ 2,074
New Construction Expenditures*	Nov. '79	$ 235.3	$ 238.5	$ 220.0
Total Business Inventories†	Nov. '79n	$ 424.2	$ 421.2	$ 376.8
Total Business Sales†	Nov. '79n	$ 299.2	$ 299.1	$ 269.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (1/9/80)	92,179	+ 725	— 4,678
New York City (1/16/80)	20,053	+ 215	— 9,543
Commercial Paper (1/9/80)	115,419	+2,505	+30,449

BANK LOANS

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/9/80)	156,686	—1,610	+24,777
New York City (1/16/80)	47,266	— 280	+ 8,635

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/9/80)	397,546	—4,506	+53,756
New York City (1/16/80)	90,436	+ 191	+14,216

SECURITY MARKETS

	Friday 1/18/80	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	12.07%	+ .27	+ 2.68
180-Day Bills (Discount Basis)	11.90	+ .16	+ 2.38
Longest Bills (Discount Basis)	10.97	+ .15	+ 1.41
11⅜s 12/31/81	99.21	+ 11/32	
10½s 12/31/83	99.3	— 11/32	
10¾s 11/15/89	99.15	— 31/32	
10½s 2/15/95	97.24	— 1-10/32	
10⅜s 11/15/09	97.28	— 2-7/32	
Municipals:			
Bond Buyer—20 Bond Index* (1/17/80)	7.28%	— .02	+ .80
Blue List Total ($ Million)	$ 785	—$ 78	+$ 126
30-Day Visible Supply ($ Million)	$1,437	—$ 109	+$ 365
Total	$2,222	—$ 187	+$ 491
Corporates:			
Moody's Aa Composite (1/17/80)	11.53%	+ .13	+ 2.02
Money Mgr.—30-Day Supply ($ Million)	$1,957	+$ 563	+$ 572
Stocks:			
Dow-Jones Averages			
Industrials	867.15	+ 8.62	+ 24.72
Transportation	263.68	+ 6.67	+ 43.87
Utilities	107.95	— 1.22	+ 5.62
65 Stocks	308.25	+ 3.31	+ 22.38
Standard and Poor's 500 Stocks	111.07	+ 1.15	+ 11.32
N.Y.S.E. Composite Index	63.94	+ 0.61	+ 8.09
N.Y.S.E. Avg. Daily Vol. for Week (000's)	54,892	+ 396	+27,426

*46% Taxable Equivalent 13.48%

INTERNATIONAL RATES

	Friday 1/18/80	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.75%	14.00%
1 month	14.06	14.00
3 months	14.19	14.13
6 months	14.19	14.13
1 year	13.13	12.88
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	N.A.	11.75%
Long Term (10 to 15 yrs.)	N.A.	11.80
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03566	.03577
Canada	.8637	.8585
France	.2475	.2480
Germany	.5796	.5817
Italy	.001242	.001243
Japan	.004174	.004237
Mexico	.04382	.04376
Netherlands	.5256	.5269
Switzerland	.6267	.6331
U.K.	2.2810	2.2588

. . . AND WEAKNESS . . .

Offsetting these pockets of strength are the declines experienced by the nation's two key industries: autos and housing. Both have been in a slump for the better part of the past 12 months. The Commerce Department reported recently that sales of newly built single family homes plunged by 13.5 per cent—the sharpest one-month drop in nearly a decade. Not surprisingly, prices of new and existing homes have turned down in some parts of the country. Clearly, industries that sell to the housing market—either before, during, or after the construction phase—are suffering. Lumber, for one, has already experienced a significant drop in demand. Since last October, when the Federal Reserve tightened credit dramatically, prices of lumber have dropped some 40 per cent. With fewer homes being constructed, bought and sold, it was inevitable that the home furnishings market would begin to suffer—and it has.

For its part, the weakness in automobile sales has already spread to rubber and steel. Production of tires is down 11½ per cent from the previous year's levels while total steel shipments are off as well. In November there was a 35 per cent drop in the volume of steel going to the automobile industry because of reduced sales, reduced sizes, and greater use of other materials. The weak housing and automobile sectors have also had an adverse affect on such other metals as copper and aluminum. After experiencing a sharp recovery in 1979, the demand for copper has contracted in recent months. Weakness may even afflict the aluminum industry, strong at present because of its increased use in automobiles as well as its use in such strong markets as containers for beer and soft drinks.

. . . STABILIZE THE CREDIT MARKETS

Not surprisingly, this conflicting array of economic—and political—developments, by exerting opposing pressures on the money and credit markets, in effect, helped them to stabilize following their rather violent fluctuations of October and November. For example, the key Federal funds rate, which had shot up from 12 per cent to 16 per cent during the latter part of October and which subsequently fell to 12½ per cent by the end of November, has since fluctuated in the 13½-14½ per cent zone. Three-month Treasury bills, likewise, have stabilized, following earlier sharp fluctuations. They have hovered around 12 per cent after having been as high as 13 per cent late in October. Three-month certificate of deposit rates have generally fluctuated within a tight range of 13¼-13½ per cent, compared with a range of over 250 basis points between early October and late November. Just about the same might be said for 90-day commercial paper rates.

As in the money markets, interest rates in the longer-term markets have also tended to drift sideways in recent weeks. Prices have been buoyed by those statistics depicting a slowing of the economy and less inflation. But at times they would be depressed by political uncertainties, those statistics that show economic strength, and concern about how much progress might be made in slowing inflation. In the government sector, interest rates on notes have stabilized at a somewhat lower level than the peaks reached in late October, but bond rates continue to reach for new records. A 15-year Treasury bond recently yielded a record average interest return of 10.6 per cent the highest return offered on any new Treasury bond since the Civil War. In the corporate sector, yields on high-quality corporate bonds have also tended to drift upward in recent weeks, but they, too, continue to fluctuate in a relatively narrow range.

Since interest rates reflect the confluence of demand and supply for money, it might be useful to take a look at recent trends in both. On the demand side, business loans at large weekly reporting commercial banks have grown about $1½ billion per month since last September. By contrast, these loans had grown about twice as fast in the previous six months. On the supply side, the Federal Reserve continues to keep the growth of money and credit to within the target ranges announced last year. The narrowly-defined money supply, M1, has grown little more than five per cent over the past year. The broader definition, M2, has climbed a little faster but remains close to the Fed's upper limit of eight per cent annual growth since fourth-quarter 1978.

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